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GOVERNOR

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
DAVID C. HOLLISTER, DIRECTOR

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COMMISSIONER

BILL ANALYSIS

BILL NUMBER: House Bill 5624 (as introduced)
TOPIC: Increased Recognition of Value of Business Acquired
SPONSOR: Representative Joe Hune
CO-SPONSORS: Rep. Hildenbrand, Gaffney, Marleau and Farrah
COMMITTEE: Committee on Insurance
Analysis Done: February 1, 2006

POSITION

The Office of Financial and Insurance Services has not taken a position on this bill. OFIS is currently examining the implications of the proposed legislation.

PROBLEM/BACKGROUND

A large life insurance company domiciled in Michigan wants to amend the Michigan Insurance Code to allow the recognition of certain kinds of goodwill, specifically, the value of business acquired, as an asset in its annual financial statements filed pursuant to section 438. The change would allow this company and any other Michigan domiciled life insurance company to count the value of business acquired as an asset, in amounts greater than what is currently permitted under existing statutory accounting rules. The company indicates that this accounting change would allow them to have access to more capital for investments and other financial endeavors.

DESCRIPTION OF BILL

Generally, the proposed legislation allows a domestic insurer that acquires a book of business (which includes life insurance or other business written by a life insurance company) to have the value of business acquired, or "VOBA," recognized as an asset in its annual statement filed pursuant to section 438 of the Michigan Insurance Code. The value of the book of business that will be allowed as an asset will be determined by the specific standards set forth in this section.

SUMMARY OF ARGUMENTS

Pro

This change in valuation of assets would have the effect of making more capital available for companies to pursue future business acquisitions, which in turn would allow them to more quickly expand their business.

Proponents of the legislation also believe that allowing such a change in accounting practices will encourage other insurers to domicile in Michigan, creating investment and jobs for the state.

Con

The agency has worked with the company to analyze the issue over the last several months and needs some additional time to complete our review. To our knowledge, the issues presented have not been examined in other states or by the NAIC, which makes the need for a thorough, but expeditious review essential. Because this represents a significant deviation from normal statutory accounting practices, we need to understand the implications on individual companies and the industry in Michigan as a whole.

Because this legislation would apply to any company meeting the requirements set forth in the bill, we want to be sure the parameters set forth are appropriate.

FISCAL/ECONOMIC IMPACT

OFIS has identified the following revenue or budgetary implications in the bill as follows:

(a) To the Office of Financial and Insurance Services: None

Budgetary:

Revenue:

Comments:

(b) To the Department of Labor and Economic Growth: None

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State: None

Comments:

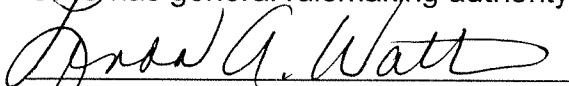
OTHER STATE DEPARTMENTS

None known

ANY OTHER PERTINENT INFORMATION

ADMINISTRATIVE RULES IMPACT

QFIS has general rulemaking authority in the Insurance Code of 1956.



Linda A. Watters
Commissioner

2-2-06

Date